

News Release

FRANCHISE TAX BOARD

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State Warns IRS Participants

FTB Urges IRS Tax Shelter Initiative Participants to Make Full Disclosure

California taxpayers who participated in the IRS Initiative have only days left to apply for relief with the California program or face full and severe penalties, according to the Franchise Tax Board (FTB). The last day to participate in the California Tax Shelter Resolution Initiative is April 3, 2006.

"Abusive tax shelters divert funding that should be going to our schools, parks, and roads. These shelters are nothing more than scams that victimize the honest taxpayers of California," said State Controller and FTB Chair Steve Westly. "This program is projected to raise \$400 million for the budget without raising a nickel in taxes. Too many in Sacramento think the only ways to find money for the budget are to raise taxes or cut vital services - there's a better way. The state is owed \$6.5 billion that it doesn't collect every year. We should be collecting it."

"The IRS announced this week that approximately 2,000 taxpayers participated in the federal tax shelter initiative that ended in January," said Board of Equalization Chair and FTB Member John Chiang. "Based on past experience, we anticipate about 25 percent of these participants will be California taxpayers and we expect them to come forward."

Based on information exchange agreements between the tax agencies, the IRS will provide the FTB with a listing of taxpayers who participated in the federal program as outlined in [IRS Announcement 2005-80](#). Those taxpayers who do not sign up to participate in California's program will be assessed full penalties on the tax shelter transactions. In 2003, California adopted some of the strictest tax shelter penalties in the nation, (SB 614-Cedillo/Burton; AB 1601-Frommer), making it costly for nonparticipants.

The California Tax Shelter Resolution Initiative announced in [FTB Notice 2006-1](#) allows taxpayers who participated in the IRS Initiative to avoid most California tax shelter penalties by participating. Only those taxpayers who elected to participate in the IRS Initiative and who fully complete the requirements of the program are eligible for the California program. For those who do not participate in the California program, tax shelter penalties can include the 100 percent interest-based penalty and the 40 percent non-economic substance transaction understatement penalty.

Taxpayers not already signed up for the California program must file FTB Form 638, *California Tax Shelter Resolution Initiative Election to Participate in Notice 2006-1* by April 3, 2006. FTB estimates show that eligible taxpayers would stand to save nearly \$23 million in penalties by participating in the California Initiative. FTB Form 638 is available at www.ftb.ca.gov.

Estimates show that abusive tax shelters cost California \$500 million in lost tax revenue each year. FTB will continue to aggressively pursue those taxpayers who use abusive tax shelters, including promoters of tax shelters. Currently the FTB abusive tax shelter unit has more than 1,100 audits open worth an estimated \$744 million in tax and \$92 million in estimated penalties.

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